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MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 7 Monday, April 8, 1991

Analysis of Business Trends Plus Selected Financial Indicators

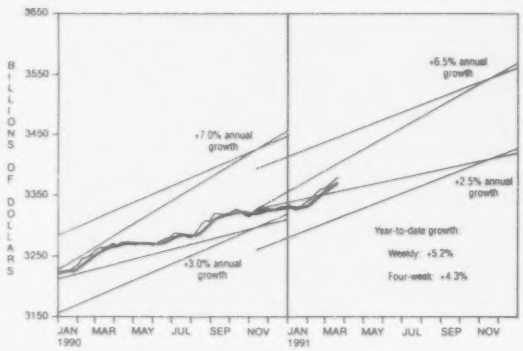
The Fed Rests On Its Oars

While the skies in the Northern Hemisphere may be brightening at this time of year, one thing that seems to be fading with the onset of spring is the likelihood of additional, aggressive monetary policy ease. For although the economy still remains in recession, and job losses continue to mount, there are enough signs of life in the pace of business (Financial Digest—March 11, 1991) and, more disturbingly, in inflation, to prompt the Federal Reserve to put further monetary loosening initiatives on hold. To be sure, an unanticipated string of unambiguously negative economic statistics, or an unbridled surge in the dollar, might alter today's cautious policy approach. But the odds, at this juncture, favor neither.

The cessation of hostilities in the Persian Gulf and lower interest rates are already serving as an antidote to the spending reticence of both households and businesses which emerged last fall. The dollar, which has appreciated sharply over the past six weeks, appears headed for a breather, if not a retracement of some of its recent gains, as traders and investors warily await potential central bank moves to staunch both the dollar's rise, and the Deutschemark's plunge. In this environment, while the descent of short-term interest rates may not be entirely over, the bottom is approaching. For long-term interest rates, the trough may have been reached weeks ago if progress does not materialize soon in slowing the stubbornly high rate of inflation and the worldwide capital shortage continues.

Although the usual degree of uncertainty surrounds the near-term business outlook, central bank inaction tends to suggest that Fed policymakers are in general agreement with the view that this will be a short, shallow downturn, and that the economy is currently in the process of bottoming. Over the past 60 days, for example, the mood of the nation has swung from gloom to near euphoria. According to the Conference Board, consumer confidence recently posted its largest two-month gain in over 15 years. While the nay-sayers point out that this has yet to translate into a vigorous spending rebound, or that mounting job losses will soon reverse this trend, brightening household expectations did contribute to a hefty rise in the Government's index of leading economic indicators in February, and has also spurred a wealth of anecdotal evidence that consumers now seem more inclined to spend. What is more, rebounding confidence and quickened spending do not always move in tandem; a short-lived lag between the two is not uncommon.

MONEY SUPPLY, M2
FOUR-WEEK MOVING AVERAGE (THICK) VS. WEEKLY FIGURES (THIN)



Sources: Federal Reserve Board; MH

Another good sign is that lower interest rates are providing a welcome tonic to the long-suffering housing market. With mortgage rates at four-year lows, housing starts, sales and building permits all registered good-sized gains in February. Some builders, at least, must think a change for the better is in the works: With only one monthly exception, the level of building permits had been in a nonstop decline since January 1990. Admittedly, there are still a number of sizable minuses hovering on the business landscape, ranging from the much-discussed belief that a full-fledged credit crunch is choking the economy, to vanishing corporate profits, to hefty levels of outstanding consumer debt. However, with a larger number of pluses now balancing the pre-existing minuses, the Fed will probably take the opportunity to pause in its pursuit of easier money.

Inflation Quandry

While the economy has yet to emerge from the recession woods, the healthier mix of economic statistics and surveys is lending weight to the arguments of those policymakers who warn that additional easing initiatives run the risk of repeating the mistakes of the past—when too much monetary relief during business down-

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turns inevitably translated into too much inflation during subsequent upturns. And, perhaps the most compelling reason for slowing the pace of monetary ease is that this recession has hardly put a dent in the rate of inflation.

In recent months, the so-called "core" rates of consumer and producer price inflation, which exclude the swings in food and energy prices, have been seemingly immune to the price dampening influences of rising joblessness and lower industry operating rates. Although special factors always seem to have some contributory role, the disturbing fact is that core consumer price inflation has been quickening for months and, over the past 12 months, has advanced at its fastest clip since late 1982. At that time, however, the trend was benign, as inflation was decelerating from the double-digit pace of 1980-81. Nor does the trend in producer prices offer much solace. For notwithstanding little or no inflation in the pipeline, at the crude and intermediate goods levels, the 12-month change in finished goods prices is accelerating, rising at its quickest clip since last spring.

Money Growth Rebounds

The rebound of both M2 money supply growth and the dollar in the foreign exchange markets

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/20/91)	204,167	- 1,379	- 12,630
New York City (3/27/91)	31,281	- 1,301	- 9,169
Commercial Paper (3/27/91)	563,231	- 1,761	+ 21,522

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/20/91)	320,216	+ 1,256	- 3,681
New York City (3/27/91)	57,168	- 511	- 380

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/20/91)	1,053,259	- 4,349	+ 44,722
New York City (3/27/91)	173,803	- 2,185	- 7,387

Financial Markets

	Friday 4/5/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.87%	+ .01	- 2.15
180-Day Bills†	5.97	- .07	- 2.17
Longest Bills†	6.23	+ .01	- 2.03
Recent Issues:			
7 ⅛s 3/31/93	6.91	NA	
7⅜s 3/31/96	7.64	NA	
7¼s 2/15/01	7.98	- .07	
7⅞s 2/15/21	8.17	- .07	
Municipals:			
Bond Buyer—20 Bond Index* (4/4/91)	7.06%	- .08	- .27
Blue List Total ($ Million)	$1,285	- $301	- $285
30-Day Visible Supply ($ Million)	$2,395	- $636	- $563
Total	$3,680	- $937	- $848
Corporates:			
Moody's Aa Composite (4/4/91)	9.14%	- .08	- .42
30-Day Visible Supply ($ Million)	$ 200	- $315	- $159
Stocks:			
Dow-Jones Averages:			
Industrials	2,896.79	- 17.07	+179.67
Transportation	1,115.30	+ 5.81	- 58.78
Utilities	215.11	- 2.07	+ 1.45
65 Stocks	1,031.65	- 3.32	+ 20.61
N.Y.S.E. Composite Index	205.66	+ .36	+ 18.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	186,776	+ 10,471	+42,406

*34% Taxable equivalent 10.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/5/91	Week Ago
Overnight	5.94%	6.25%
1 month	6.06	6.19
3 month	6.06	6.25
6 month	6.19	6.44
1 year	6.63	6.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/5/91)	Currency Per U.S. $	Week Ago
Belgium	34.30	34.93
Canada	1.1544	1.1595
France	5.6455	5.7540
Germany	1.6675	1.6980
Italy	1239.30	1259.00
Japan	136.20	140.65
Mexico	2988.20	2985.00
Netherlands	1.8790	1.9140
South Korea	711.66	710.87
Switzerland	1.4210	1.4540
Taiwan	26.94	26.92
U.K.*	1.7875	1.7480

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/5/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.5%	-0.4%

reinforces the likelihood of policy stability. After expanding anemically during much of the past year, and often at a pace below the targets set by the Fed, M2 growth has recently perked up. Responding to past easing efforts, M2 has grown by two percent since its October 1990 low and, as shown in the chart on page 1, is now positioned in the middle of its 1991 target range. While this alone would not warrant a shift to caution by the Fed, it does blunt a major argument for even easier credit conditions.

Finally, the strength of the dollar does not necessitate any policy change. In fact, it has simply retraced some of its large losses versus the European currencies which occurred in the wake of the windfall political changes which swept Eastern Europe in late 1989. In so doing, the relentlessly oversold dollar has moved back to a more realistic valuation level versus the Continental currencies, a development which should not significantly curb exports, but will assist the Fed in its inflation fight. Rather than attempting to deflate the dollar, the Fed should feel more comfortable with where it is, one more factor favoring today's wait-and-see monetary policy stance—waiting to see whether or not the economy has bottomed, while signaling the financial markets that the central bank has not lost its inflation-fighting resolve. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/3/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	248.687	+ 4.604	+21.808
Loans to Depository Inst.	.250	+ .077	- 1.900
Float	1.093	+ .820	+ .557
Total Reserve Bank Credit	286.919	+ 3.189	+17.478
Treasury Deposits with			
Federal Reserve Banks	8.352	+ 2.221	+ 3.897
Currency in Circulation	286.973	+ .942	+29.888
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	243.467	- .732	+18.967
	4/3/91		
Member Bank Reserves:			
Total Reserves Held	48.928	+ .301	- 10.312
Excess (Deficiency)	1.417	+ .406	+ .339
Net Free Reserves	1.267	+ .394	+ .381
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (3/25/91)	844.5	+ 7.7	+ 4.5
M2 (3/25/91)	3,385.6	+ 5.7	+ 3.4
M3 (3/25/91)	4,174.6	+ 5.7	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/5/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.71%	5.72%	5.85%
* Federal Agencies	6.10	6.10	6.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.82	7.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.15	6.25	6.60

‡ Finance Company Paper–Prime

5- 14 days	5.96%
15- 29 days	5.90
30- 59 days	5.93
60- 89 days	5.90
90-179 days	5.90
180-239 days	5.90
240-270 days	5.90

‡* Bankers' Acceptances

May	6.05%
Jun.	6.02
Jul.	6.00
Aug.	6.00
Sep.	6.00
Oct.	5.99

‡ Industrial Paper–Prime

30- 89 days	6.05%
90-120 days	6.05

†Federal Funds Effective Rate 5.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,527r	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,153r	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 1.6r	1.4	0.3
Change in Consumer Prices*	Feb '91	2.4%	4.8%	6.0%
Change in MH Cost of Living Index*	Feb '91	7.2%	9.6%	12.0%
Change in Producer Prices*	Feb '91	- 7.2%	- 1.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Mar '91 n	116,754	116,918	118,235
Unemployment as % of Civilian Labor Force †	Mar '91 n	6.8%	6.5%	5.3%
Personal Income*	Feb '91 n	$ 4,736	$ 4,724r	$ 4,562
Leading Indicators Composite Index (1967=100) †	Feb '91 n	140.5	139.0r	144.1
Industrial Production Index (1977=100) †	Feb '91	105.7	106.6	108.5
Net Change in Consumer Installment Credit †	Feb '91 n	- $ 2.30	- $ 2.26r	$ 0.04
U.S. Merchandise Trade Balance †	Jan '91	- $ 7.00	- $ 6.28	- $ 10.20
Plant and Equipment Expenditures*	1st Q'91	$ 557.9 (a)	$ 532.8 (a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Feb '91	989	850	1,459
New Construction Expenditures*	Feb '91 n	$ 395.1	$ 395.4r	$ 455.6
Total Business Inventories †	Jan '91	$ 814.4	$ 811.0	$ 797.2
Total Business Sales †	Jan '91	$ 523.6	$ 529.9	$ 529.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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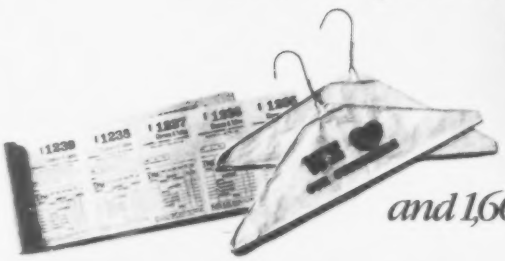

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